

Food Marketing

Food Price Increases in 1999 & 2000 To Be Lowest Since Early 1990's

Consumers are benefiting from a low general inflation rate, with food prices forecast to increase only 2 percent in 1999 and 2 to 2.5 percent in 2000, in part because of large supplies of meats. Food price increases have not been so low since the early 1990's—when prices increased 1.2 percent in 1992 and 2.2 percent in 1993. With 8 months of Consumer Price Index (CPI) data already collected in 1999, the annual average food CPI is 2 percent above the first 8 months of 1998. The inflation rate for the all-items CPI is forecast to be 2 percent in 1999 and 2.2 percent in 2000.

The at-home component of the food CPI, which increased 1.9 percent in 1998, is forecast up 1.7 percent in 1999 and 2-2.5 percent in 2000. The away-from-home component, which increased 2.6 percent in 1998, is expected to increase 2.6 percent in 1999 and 2.5-3 percent in 2000. This component is heavily influenced by competition among restaurants, fast-food establishments, and meals offered by supermarkets.

Food price changes are key in determining what proportion of income consumers spend for food. In 1998, 11 percent of household disposable income went for food—with 6.7 percent for food at home and 4.4 percent for food away from home—down from 11.1 percent in 1997. The downward trend should continue in 1999 and 2000.

Meats. Retail meat prices are forecast up 2-3 percent in 2000 as combined red meat and poultry production falls from a record 81.2 billion pounds in 1999 to 80.7 billion pounds in 2000. Total red meat and poultry consumption will reach almost 220 pounds per capita in 1999, breaking the 1998 record of 214 pounds. In 2000, consumption may decline 1-2 pounds. Increased supplies of poultry will mitigate the smaller beef supplies expected in 2000. In 1998 and 1999, large meat supplies and reduced prospects for higher price meat exports depressed U.S. live-

stock and poultry prices, with retail prices falling 1.9 percent in 1998 and expected to increase 0.1 percent in 1999.

Beef and veal. After setting a record for both commercial and total beef production this year, beef production will begin a fairly sharp decline next year. In addition to lower beef supplies, retail availability of higher quality beef will tighten after the hotel-restaurant-export market competes for the higher valued beef. Retail prices for Choice beef are expected to average \$2.83 a pound this year, up from \$2.77 in 1998. Prices may rise to \$2.86 per pound in 2000, the highest average retail price since 1993. The CPI for beef and veal is expected to increase 1.2 percent in 1999 and another 1-3 percent in 2000. Large supplies of other meats, particularly poultry, will limit the increase.

Also, improved eating quality, consistency, and increased cut sizes have made both white-meat chicken and pork loins more competitive with beef.

Pork. Commercial pork production is expected to be about 19.2 billion pounds in 1999, up over 1 percent from a year earlier. Following two consecutive record years, production is expected to fall to 18.6 billion pounds in 2000. With plentiful supplies of pork and competing meats throughout 1998 and 1999, pork retail prices fell 4.7 percent in 1998 and are expected to fall another 2.3 percent in 1999. The pork CPI is expected to increase 2-3 percent in 2000 as pork and beef supplies decline.

Retail pork prices in 1999 have remained relatively steady despite volatile hog prices. Retailers have found that they can move pork off the shelf without large price discounts, and consumer incomes are strong, increasing the demand for meat. Over time, pork demand appears to have increased in response to higher quality, greater consistency, and larger cut size

Changes in Food Price Indicators, 1998 through 2000

	Relative weights ¹	1998	Forecast 1999	Forecast 2000
	—Percent—	—Percent change—		
All items		1.6	2.0	2.2
All food	100.0	2.2	2.0	2 to 2.5
Food away from home	37.2	2.6	2.6	2.5 to 3
Food at home	62.8	1.9	1.7	2 to 2.5
Meats	10.8	-1.9	0.1	2 to 3
Beef and veal	4.8	-0.2	1.2	1 to 3
Pork	3.8	-4.7	-2.3	2 to 3
Other meats	2.2	-0.9	0.9	2 to 3
Poultry	3.2	0.3	0.1	-1 to 1
Fish and seafood	2.2	2.6	1.6	1 to 3
Eggs	0.8	-3.3	-3.6	-2 to -1
Dairy products	6.7	3.6	4.7	-1 to 1
Fats and oils	1.9	3.7	2.3	0 to 2
Fruits and vegetables	9.0	5.7	2.0	2 to 3
Fresh fruits and vegetables	6.9	7.3	2.3	2 to 3
Fresh fruits	3.5	4.3	7.9	2 to 4
Fresh vegetables	3.4	10.9	-4.2	2 to 4
Processed fruits and vegetables	2.1	1.7	2.3	2 to 3
Sugar and sweets	2.4	1.6	1.4	1.5 to 2.5
Cereals and bakery products	10.0	2.0	2.5	2 to 3
Nonalcoholic beverages	7.0	-0.3	1.1	2 to 3
Other foods	8.5	2.7	2.4	2 to 3

¹Bureau of Labor Statistics estimated weights as share of all food, December 1998.

Sources: Historical data, Bureau of Labor Statistics; forecasts, Economic Research Service.

Economic Research Service, USDA

Briefs

offered by the industry. Pork consumption may reach a record 53.5 pounds (per capita, retail weight) in 1999, with an expected decline to 51.6 pounds forecast for 2000.

Poultry. The CPI for poultry is expected to be unchanged in 2000, after rising only 0.3 percent in 1998 and 0.1 percent in 1999. Broiler production is expected to continue growing, up 6 percent to 29.4 billion pounds in 1999, and up 5.2 percent to 31 billion in 2000. Turkey production is expected to increase slightly to 5.3 billion pounds in 1999. After 3 years of negative returns for turkey producers, some production facilities have been converted to chicken production.

Consumers are buying more poultry in response to the convenience of processed poultry products and to fast-food promotions. Broiler consumption will be 77.8 pounds (per capita, retail weight) this year, up from 72.6 pounds in 1998, and could reach 82.2 pounds in 2000. The fast-food market continues to grow, especially demand for wings and skinless, boneless chicken breast. And with downturns in the export market expected in 1999 and 2000, promotions of dark meat (legs and thighs) have begun in the U.S. retail market.

Fish and seafood. Despite larger imports of shrimp, tilapia, and salmon, slower growth in U.S. catfish output should lead to an increase of 1.6 percent in the fish and seafood CPI for 1999. In 2000, the index is forecast up 1-3 percent.

Eggs. Retail egg prices fell 3.3 percent in 1998 and are expected to fall another 3.6 percent this year due to production increases of nearly 3 percent each year. With egg production expected to increase 2 percent in 2000, the CPI for eggs is expected to decline just 1-2 percent next year. Per capita egg consumption is forecast to rise from 253.6 eggs in 1999 to 255.2 eggs in 2000.

Dairy products. In 1998 and 1999, strong demand outstripped production of milkfat

products such as butter, cheese, and ice cream, leading to higher consumer prices. The CPI for dairy products increased 3.6 percent in 1998 and is expected to increase another 4.7 percent this year. Summer 1999 milk production rose about 3 percent above a year earlier, with a smaller fall increase expected. Good forage is expected to keep expansion in milk production strong through the rest of 1999. However, dairy growth is slowed by limited herd expansions in the northern U.S. With milk production forecast to increase 2 percent next year, retail prices for dairy products are expected to remain unchanged in 2000.

Fresh fruits. Higher retail prices for Valencia and navel oranges, grapefruit, lemons, and pears are boosting the CPI fresh fruit index by 7.9 percent in 1999, after a 4.3-percent increase in 1998. Four days of freezing temperatures in California late last December squeezed fresh citrus supplies through much of 1999. The 1998/99 U.S. citrus crop dropped 23 percent from the previous season, mostly due to poor weather. All citrus crops, except limes, were smaller. Florida's citrus production was down 20 percent from the previous year's record crop, and California's citrus output fell 39 percent. However more stone fruit, grapes, and strawberries will be harvested in 1999 than 1998. After a record 1998 apple crop, production is likely to fall 7 percent in 1999. In 2000, the CPI is expected to rise 2 to 4 percent.

Fresh vegetables. Fresh-market vegetable acreage is expected to increase 1 percent for 1999, with summer vegetable area for harvest forecast up 5 percent over a year ago. After weather-related shortfalls in 1998, growing conditions in major fresh vegetable areas returned to near normal in 1999. Consequently, the fresh vegetable CPI is forecast to fall 4.2 percent in 1999. In 2000, the CPI is expected to return to trend growth, up 2 to 4 percent.

Processed fruits and vegetables.

Although supplies of processed vegetables were down in 1998, adequate supplies of most fruits for processing limited the CPI

increase for processed fruits and vegetables to 1.7 percent. The index is expected to increase 2.3 percent in 1999 and 2-3 percent in 2000. In first-half 1999, more navel oranges grown in southern California were sent to processing because of freeze damage.

Sugar and sweets. Domestic sugar production was up almost 3 percent to 8.3 million short tons in 1998/99. It is expected to hit a record 8.9 million short tons in 1999/2000. Relatively low inflation, along with increased production, is nudging up the 1999 sugar and sweets index by only 1.4 percent. With U.S. sugar production in 1999/2000 expected to be up 7 percent, the CPI is projected up 1.5 to 2.5 percent in 2000 as demand remains strong in the bakery and cereal sector.

Cereals and bakery products. This food category accounts for almost 16 percent of the at-home food CPI. With grain prices lower this year and inflation-related processing costs modest, the CPI for cereals and bakery products is forecast to increase 2.5 percent in 1999. Most of the costs to produce cereal and bakery products are for processing and marketing—more than 90 percent in most cases—with grain and other farm ingredients accounting for a fraction of total cost. With competition among producers and consumer demand for bakery products expected to remain fairly strong, the CPI is forecast up 2-3 percent in 2000.

Nonalcoholic beverages. The CPI for nonalcoholic beverages increased 1.1 percent in 1999, led by higher soft drink prices, and is forecast to increase another 2 to 3 percent in 2000. Coffee and carbonated beverages account for 28 and 38 percent of the nonalcoholic beverage index. Lower coffee prices in 1999 reflect a near-record crop in Brazil, the largest producer of Arabica coffee beans. Weather has been excellent for the current crop, and coffee trees have finally recovered from effects of a freeze in 1994. **AO**

Annette L. Clauson, (202) 694-5373
acluson@econ.ag.gov